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Center for Social & Economic Research

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Project entitled
"Support for Economic Transition in Ukraine"
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The Final Report
For
The United States Agency for International Development

This is the final report concerning the realization of the project entitled "Support for Economic Transition in Ukraine". The report summarizes the interventions made by CASE over the period of the project and gives the evaluation of impacts and results of the work done under the project.

General overview

In September 1997 CASE - Center for Social and Economic Research signed with the USAID mission in Warsaw the cooperation agreement concerning implementation of the project on "Support for Economic Transition in Ukraine" (grant No. 181-A-00-97-00321). The USAID mission in Kiev amended this agreement with the additional grant No. 121-G-00-97-09004-00.

The project commenced in October 1997 and lasted until March 1999 with two months break in January-February 1998.

The project was supervised by Senior Consultant Professor Marek Dąbrowski. Marcin Łuczyński was a Project Coordinator, managing the project from Warsaw. He was supported by Krzysztof Połomski in Warsaw (during the period July 1998 – March 1999). Aleksey Krivstov (from September 1997 until June 1998) and Gennady Greblov (from July 1998 until March 1999) coordinated all activities in Kiev and served also as researchers supporting visiting experts.

The project provided possibility to transfer the Polish economic transition experience to Ukraine and provide a short term technical assistance of the Polish experts to the Government of Ukraine (GOU) and the National Bank of Ukraine (NBU).

Project activities were concentrated in such areas as macroeconomic and fiscal policy, macroeconomic modeling, public administration reform, banking sector reform and restructuring, capital markets, privatization and enterprise restructuring, new business development and deregulation. This covered all areas stipulated in the outline of the project apart from social assistance issues.

Technical assistance has been provided in the following forms:

- visiting missions of the Polish senior experts to Ukraine in response to the concrete needs of the Ukrainian government institutions (up to end of March 1999 seventeen experts providing 192 working days of technical assistance);
- analytical and forecasting work provided by the Polish and Ukrainian junior staff in Warsaw and Kiev (four working months provided by one Polish junior macroeconomist and work of one Ukrainian junior assistant also working in the capacity of the local project coordinator).
- visiting study tours of groups of Ukrainian civil servants and experts to Poland (three study tours and additionally support for the study tours organized under separate USAID project);
- training seminars for Ukrainian civil servants and experts (two seminars on enterprise restructuring - in Kiev and Lugansk);

- building the independent policy research center in Ukraine (CASE daughter center in Ukraine);

The project produced also benefit for Poland. Undoubtedly the lessons learnt from Ukraine, in many cases quite bitter, are taken into consideration in economic policy debate in Poland with strong connections in government, finance and the private sector. In this context the project contributed to better understanding of Ukrainian situation and its economic and political problems by Polish public and political elite. It was achieved by number of factors: publications issued by CASE, articles in Polish press written by experts participating in the project which concerned experience learned in Ukraine, bilateral contacts between Ukrainian institutions and their Polish counterparts which were made under the project (e.g. study tours). The project was summed up with the conference on the process of Ukrainian reform in years 1996-1998 giving the analyses of reform process in Ukraine.

The detailed description of project activities has been presented in subsequent quarterly reports. Below you will find a brief summary of activities conducted under the project in separate areas:

Summary

1. Macroeconomic Policy Advise

CASE experts have advised on macroeconomic policy and worked on macroeconomic modeling and forecasting under the HIID-CASE Macroeconomic Policy Project and under the project on "Support for Economic Transition in Ukraine" in close cooperation with the Ministry of Economy, Ministry of Finance, and the NBU. The main activities in the area of macroeconomic policy advice were the following.

Under the project Prof. Marek Dąbrowski visited Kiev on a regular basis providing recommendations to the government officials - decision makers from the Ministry of Finance, the Ministry of Economy and the NBU. During his visits he advised the Ukrainian counterparts on direction of monetary, exchange rate and fiscal policy as well as the requirements and main directions of the economic program to be supported by international organizations. Prof. Dąbrowski also delivered lectures and took part in public seminars of educational character, e.g. at the International Center for Policy Studies ("Speed and Sequencing of Economic Transition", "The Causes of the Asian Crisis"), at the NBU ("Globalization of Financial Markets").

Prof. Mirosław Gronicki worked on developing a short and medium term macroeconomic forecast basing on econometric model. The model related to inflation, nominal and real GDP and its components, monetary aggregates, budget revenues and expenditures, and external sector. The work connected with the development of the model included several stages: (i) creation/updating of the data base and checking for its consistency, (ii) econometric analysis which required the creation of a new short term inflation model (the old model used by the Ministry of Finance, Ministry of Economy and the NBU was not longer useful for the rigid sensitivity to small changes in the levels of inflation), (iii) macroeconomic analysis used to estimate relations between major macroeconomic indicators, and (iv) preparation of macroeconomic scenarios which were presented to and discussed with the Ukrainian counterparts. From June 1998 this work has been continued under the separate USAID grant - the Ukraine Macroeconomic Policy Program (Award No. 121-A-00-98-00623-00)

CASE also organized in November 1998 the study tour in Poland for representatives of the Ministry of Finance, the Ministry of Economy and the National Bank of Ukraine. The visit was aimed to present techniques and procedures in field of macroeconomic modeling and forecasting used by Polish governmental institutions as well as non-governmental research institutes.

We consider that the work done by our experts in Ukraine as well as the study tour very valuable and useful concerning building the analytical capacity of the Ministry of Economy and Ministry of Finance. However, we would like to stress that there still are aspects of macroeconomic situation which were not covered under the project though have great influence on the economy as a whole. These are, among others:

- balance of payments,
- analyses of limitations on the supply side (e.g. shortage of energy),
- analyses of the hidden unemployment which can influence the social safety net,
- macroeconomic consequences of microeconomic activities (such as privatization, deregulation, S&M Enterprises Reform).

2. Public Administration

Under the project CASE organized the visiting study tour for a working group on administration reform created within the GOU (April 1998), and another one, together with the Barents Group for the officials from the Ministry of Finance of Ukraine (November 1998). CASE also organized a short-term visit of Mr. Marian Litiwnowicz, senior advisor to the Prime Minister of Poland to Kiev in order to discuss the Polish experience in the public administration reform with the Ukrainian counterpart (October 1998). The study tours as well as the consultation in Kiev were greatly appreciated by Ukrainians as well as foreign experts involved in public administration reform process.

3. Banking Sector Reform

Mr. Andrzej Parafianowicz the expert from the NBP participated in one week working seminar on money laundering in October 1997. In spring 1998 the NBP-GINB hosted the visiting study tour of the group of banking supervision inspectors from Ukraine, organized by CASE under this project. During the visit our guests studied, among others: the structure of the General Inspector of Banking Supervision (GINB), licensing procedures, procedures of on-site inspections, approaches towards problem/liquidated banks. The visit was considered very useful and both sides broaden mutual cooperation. The result of the continued cooperation was the two-month work of two Polish experts in Kiev. Two Polish bank inspectors worked with the NBU supervision department within the multi-donors project under which the biggest Ukraine banks went through international audit. The

...the work performed by Polish experts highly appreciated. We received

Resident Advisor. Through the work of Polish experts CASE contributed to strengthening not only the capacity of the supervision department at the NBU but also the whole Ukrainian banking sector.

4. Legal Reform

During the project implementation, following a request expressed by AID in Kiev we organized the visit of Mr. Marcin Szpak - an expert on restructuring of municipal enterprises and legal issues concerning functioning of municipal enterprises. We think that more could have been done in this area, mainly through expertise research done in Poland and then presented in Ukraine during short visits.

5. Capital Markets and Privatization

The building of capital market institutions is critical to assure the successful completion of the privatization program. It would be valuable to continue the activities started by the representatives of Polish Securities Commission under the project. They consulted their Ukrainian counterpart (in spring 1998) on the following issues:

- disclosure requirements,
- supervision of state-owned companies,
- sanctions that can be imposed on the management of the companies,
- insider trading.

We prepared and performed the visit of Dr. Julian Pańków, the expert on privatization. Dr. Pańków visited Kiev between 8 and 19 of February on request of Mrs. Svetlana Ledomska, the deputy head of the State Property Fund. The visit was first of all dedicated to precise recognizing the needs of Ukrainian counterpart, analyzing the structure of the legal base, and working out a list of privatization issues which may be subject of transfer of Polish experience.

Below are the issues that were of particular interest to Ukrainian partners:

- completion of mass privatization and its consequences (including the structure of ownership, protection of property rights),
- corporate governance in companies with large fraction of shares owned by the state,
- methods and techniques of cash sales (creation of new methods such as sale to strategic investor in the course of negotiations, procedures for case-by-case privatization), and use of non-standard means of payment (state bonds, debts and other obligations).
- privatization with foreign capital participation,
- development of capital market,

the rules concerning utilization of foreign aid in the process of privatization.

This visit was fought to start the closer co operation. However, because of ending of the project it did not happen. We consider it as a defeat.

With regards to the visit of representatives of Polish Securities Commission we have to notice that some of their recommendations, especially those most sophisticated although fully understandable were not suitable and ready to implement for Ukrainian counterpart. The Ukrainian macroeconomic situation and weakness of basic institutions (such as courts and enforcement powers) highly influence the capital markets. Thus, the Ukrainian Securities Commission still faces to overcome this general barriers in development of securities markets.

6. New Business Development and Deregulation

Under the project, on the request from the Cabinet of Ministries of Ukraine, in April 1998 CASE has organized a study tour for a group of advisors to the Deputy Prime Minister, Mr. Tyhypko. The study tour was devoted to deregulation and creation of favorable environment for business development. The program of the tour was highly evaluated by participants and experience gained during the tour appeared to be useful in their work in the committee on economic reforms.

7. Establishing CASE daughter foundation

Finally, after several months of consultations, and paper work the Ministry of Justice of Ukraine registered (in the end of June 1999) a daughter company of CASE – CASE Ukraine. It is planned that Viktor Lisicki, the Chief of Advisors to the President of the National Bank of Ukraine will be appointed as the President of CASE Ukraine.

8. Conference on Ukrainian Reforms

To sum up the results of CASE experts activities under the project CASE organized a conference in Warsaw. The conference took place in Warsaw on 26th and 27th of March 1999. Its aim was to sum up the activity of CASE's experts in Ukraine and learn about current problems that Ukrainian economy faces nowadays. During the conference five separate blocks of topics were presented and discussed. Each session was followed by discussion among all participants of the conference.

The first session was devoted to evaluation of reforms that had been made in Ukraine. The evaluation was made by professor Marek Dąbrowski, Vice Chairman of CASE and Viktor Pynzenyk, Member of the Ukrainian Parliament and former Vice Prime Minister.

The second session covered issues of monetary policy, exchange rate policy, and banking sector in Ukraine. These were presented by young researchers working in CASE representative office in Kiev (Małgorzata Markiewicz, Urban Górski and Marta Diekhtiarczuk). The overall situation in banking sector was presented by Viktor Lisicki, the Chief of Advisors to the President of the National Bank of Ukraine, who also spoke about the future reforms to be undertaken in banking system.

The third session concerned fiscal policy and public finances. The speakers were: Marina Shapavalova, Director of Fiscal Policy Department in the Ministry of Finance and Pavel Kovaliov, researcher from CASE representative office in Kiev.

The fourth session dealt with privatization in Ukraine. Aleksandr Paschaver, Advisor to the Prime Minister of Ukraine presented the current situation while Krzysztof Lis, the President of the Center of Privatization commented on the presentation.

The fifth session was devoted to the future possible scenarios of macroeconomic situation in Ukraine. The three different scenarios (most possible, pessimistic and optimistic) were described by Mirosław Gronicki, CASE's senior expert working in Ukraine under the project Macroeconomic Policy Advice. His presentation was followed by the comments from Igor Shumillo, Deputy Minister of Economy and Janusz Szyrmer, the Chief of Advisory Group of Harvard Institute for International Development in Ukraine.

We think that the conference was very successful and enabled the participants understand the need of faster reforms in Ukraine as well as recognize the directions of reforms. On the other hand it contributed to better understanding of Ukrainian economic situation by Polish public.

Evaluation of results

We believe that the project achieved results which were named in project proposal, i.e.

- popularization of the Polish experience in reforming and building market oriented economy with special attention devoted to the factors which contribute to economic growth;
- increasing the technical capacity of the Ukrainian government officials through technical assistance, training, dissemination of knowledge on how the Polish governmental institutions work;
- development of professional skills of the Ukrainian civil servants, policy makers and researchers;
- development of the market oriented research.

Apart from direct gains from consultations provided by Polish technical advisors we could point out some others of high importance. CASE senior experts consequently co-operated with young Ukrainian researchers and junior officials. It undoubtedly contributed to creation of a group of young Ukrainian economists who in future could play crucial role in Ukrainian reforms.

We perceived as a very important the fact that the project became an instrument of "leveraging" the additional assistance from the Polish governmental institutions such as the National Bank of Poland and the Securities Commission which had the form of financing salaries of consultants delegated by these institutions to Ukraine. As a result, AID grants money was used only to finance costs of transportation and accommodation in Ukraine. The same relates to many consultations and lectures provided by experts from Polish governmental institutions to the Ukrainian participants of the visiting study tours to Poland. Concerning the banking sector area we believe that actions taken under the project contributed significantly to broaden cooperation between the NBP and the NBU and made this two institutions to make institutional tight in order to transfer Polish experience on banking

reform. There is the evidence of common programs between the NBP and the NBU on banking sector reform which have been started recently.

We also believe that the project as the first practical example of institutional cooperation between Poland, Ukraine and the United States in the field of technical assistance somehow contributed to the idea of this cooperation and supported an idea of launching broader institutional framework – PAUCI.

As a main defeat we consider the fact that we were not able to agree on intervention in area of social issues both with Ukrainian counterparts and AID officers. This was mostly caused by the fact that before the presidential election painful social reforms were not of interest of the government. Thus the Ukrainian governmental agencies responsible for social policy were reluctant to cooperate in this field and tried to preserve status quo.

Similar reasons contributed to the fact that CASE started so late the activity in the field of privatization – perturbation with the management of the State Property Fund and halting the privatization process did not allowed to start cooperation in the beginning of the project. Finally we had been able to start the work with the State Property Fund just before the project commenced. This intervention was very promising and indicate the high expectation concerning assistance provided by CASE. We wish not to stop this activity and we believe that it could be continued in future under the separate AID project.

We would like to thank Agency for International Development of the United States for granting the project to CASE Foundation as well as strong support in its implementation.

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